

ICPS newsletter

Enterprise managers expect improvement of economic conditions

The new issue of ICPS's Business Opinion Review was published last week. It contains an analysis of the performance of industrial firms over the fourth quarter of 1999, based on the results of our independent business opinion survey. Reduced management pessimism concerning possible changes in overall economic conditions shows that the real sector has the potential for production growth in 2000

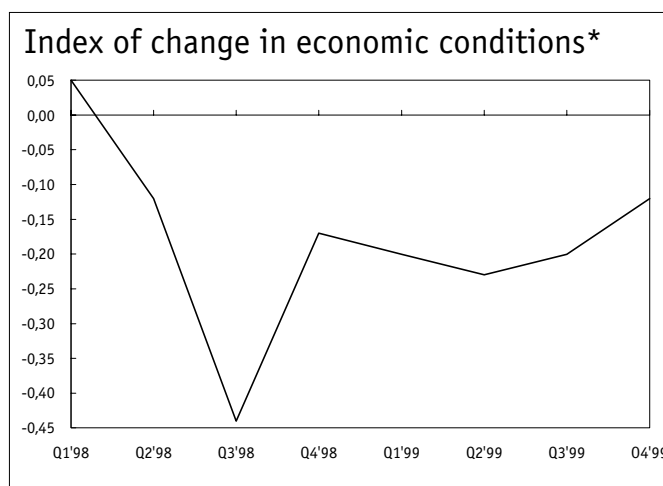
Enterprises are less pessimistic about the future

Respondents' evaluation of possible changes in overall economic conditions over the next six months has improved—the index of change* increased from -0.20 to -0.12, which was the highest value of the index recorded over 1999.

These tendencies towards reduced pessimism may result from the following:

- firstly, taking into account that evaluation of conditions for enterprise activity depends on their current performance—which was fairly good during this year (expanded production and sales recorded during the year resulted in improved financial performance in Q4'99)—it may cause a decrease in pessimism;

* Index is calculated as the difference between the share of managers giving a positive answer and the share of those giving a negative answer.



- secondly, this may be a response of business to the new government coming to power in Ukraine, which is expected to implement firm and consistent measures aimed at improving the business environment.

Thus, entrepreneurs began the new year with less pessimism than in 1999, granting a vote of faith in the executive authorities and hoping for their essential steps in conducting economic reforms, which would stimulate continuation of last year's positive trends.

ICPS Business Opinion Survey activity to be modernised

This issue of the Business Opinion Review will be the last in its current format. During two years, the International Centre for Policy Studies conducted quarterly business opinion surveys as a pilot project financed by the Open Society Institute. Now, the project may continue only under conditions of additional financing by donors, government and private sector.

We propose to conduct monthly nationwide surveys of Ukrainian businesses in order to generate a Business Confidence Index of both the state of the economy and specific macroeconomic policy initiatives by government. Periodical business opinion reviews are an effective tool used worldwide for assessing current situations and trends in market economies. First, the government and policy makers apply these indicators to evaluate the impacts of current macroeconomic policy on business activities in the country and to formulate new policies. Second, using these indicators, businesspeople perceive how the economy is changing and how these changes might affect their firm. Third, the results of business opinion surveys and, particularly, business confidence indexes are routinely used by financial markets and institutions for investment decisionmaking.

The new project objectives will be as follows:

- inquire into and analyse the opinion of Ukrainian businesses on their activities over the last month and their expected outcomes for the next month;
- provide Ukrainian policy makers with current microeconomic data for use in effective forecasting, and formulation of macroeconomic policy;
- supply Ukrainian businesses with information that could assist them in their decision-making process;
- provide Ukrainian businesses with a tool that could be used to foster public-private dialogue and participation in the policy process.

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Domestic demand has been stabilising

By the results of Q4'99, we can assert that the stabilisation of domestic demand for the production output of enterprises continued. The following positive changes were recorded:

- a decrease in the number of firms reporting shortage of domestic demand for their production output (57.1% in Q1, 34.5% in Q3, and 29.4% in Q4);
- a decline in the number of managers who considered shortage of demand to be an impediment to production growth (52.5% in Q1, 49.7% in Q3, and 47.1% in Q4).

Input shortage was caused by price growth

Despite a certain improvement in input inventories of enterprises in Q3'99, expected continuation of this trend was not recorded in Q4. Input inventories shrank at almost half of the surveyed enterprises, nearly twice as many as in the previous quarter. The problem of shortage of inputs remained significant for a number of enterprises—while evaluating input inventories of enterprises, 54.4% of managers considered their level to be extremely low for continuation of normal production.

In the opinion of respondents, the major cause of decreased inventories was prices growth on inputs, which were the year's highest in Q4'99—the share of managers (70.8%) reporting increased prices on inputs significantly exceeded the share of

those (1.3%) who reported decreased prices. For the next quarter, managers expected the decrease in input inventories to decelerate, and a somewhat slower pace of increase in prices on inputs.

Profitability has improved

In Q4'99, profitability was higher than respondents in Q3 had predicted. The share of firms reporting positive dynamics of this indicator increased from 23.5% in Q3 to 31.9% in Q4. In the next quarter, managers expected somewhat lower profitability (-0.16). In Q4'99, the tendency towards decreased arrears of all types was still in force. Aggravation of accounts receivable and accounts payable slowed down. Wage arrears declined significantly.

In Q4'99, for the first time respondents were asked about the dynamics of their tax arrears and tax payments. The following results were obtained:

- 35.1% of respondents have no tax arrears;
- the share of enterprises reporting decreased tax arrears (22.3%) was larger than the share of those reporting an increase (20.3%);
- 44.0% of firms reported increased tax payments, while 11.7% reported a decrease.

Managers of enterprises expected that these trends would be preserved in Q1'00. ■

Contract failure: How businesses solve this problem

Adherence to contracts on merchandise or service sales set up by enterprises is an essential element of property right enforcement, which is the foundation of a market economy. Ukrainian legislation has certain drawbacks in the mechanism for transferring property while using property accountability with regard to debtors who fail to implement the terms of a contract. Thus, very often enterprises face the problem of collecting debts from contractors due to their failure to implement contracts.

ICPS's special survey in Q4'99 was devoted to an investigation of these problems. The main questions were on the methods used by enterprises to solve contract failure problems

According to the obtained data, in 1999 39.4% of enterprises faced the problem of contract failure. There are different ways to solve the problem.

- every tenth respondent (10.1%) reported that contract failure led to no actions being taken with regard to contract violators;
- the most effective among the methods used (switching consumers or suppliers) was mentioned as a solution by, respectively, 26.6% and 21.1% of those respondents who faced problems concerning contract failure;
- according to the survey, enterprises are applying to court more often (47.7%).

The average term of a case trial was 5 months. By then, the court had made decisions on 78.8% of cases: 40.4% of cases were solved within one month, while 6.4% of enterprises waited for a court decision for up to a year. Among cases still waiting for a court decision, 45.5% had already been considered for 6 or more months.

Among the completed cases, 89.1% of decisions were made in favour of the plaintiffs. This implies that their suits were grounded, and also that enterprise managers were well-informed on legal issues.

Decisions made by the court should usually be executed faithfully and quickly. However, respondents reported that only 53.7% of decisions were implemented. In the opinion of respondents, there are several reasons for court decisions not being executed:

- defendants lack the necessary funds to meet creditor claims (75%);
- the procedure for debt collection is inadequate (33.3%);
- these are cases when the defendant is a state enterprise.

52.2% of enterprises whose contractors failed to meet their commitments did not apply to court at all. There are several reasons for not applying to court: significant costs associated with case administration – 48%, better results from other methods to solve the problem – 38%, ineffective work of the court – 28%, high price of hiring a lawyer – 21.6%, and uncertainty – 14%.

Enterprises that chose out-of-court methods to resolve the problem of contract failure succeeded in 87.2% of cases. Despite this, however, in our opinion, if court activity is improved and effectiveness of executive actions is increased, the trend towards increased number of enterprises that resolve their problems through the courts will accelerate.

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